

Message Text

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PAGE 01 STATE 015611
ORIGIN NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 FEA-01 ERDA-05 DODE-00 FPC-01 H-01 INT-05 L-03
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DRAFTED BY NEA/IRN:RWBEALES:P

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FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN

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E.O. 11652:N/A

TAGS: BTIO, ENRG, ETRD, IR

SUBJECT: OIL BARTER NEGOTIATIONS FOR SALE OF RAILWAY
COACHES

1. BUDD COMPANY OFFICIALS CALLED AT DEPUTY SECRETARY'S
OFFICE JANUARY 14 TO BRIEF DEPARTMENT ON STATUS OF NEGO-
TIATIONS WITH GOVERNMENT OF IRAN FOR SALE OF LOCOMOTIVE-
DRAWN RAILWAY PASSENGER COACHES.

2. ACCORDING TO BUDD OFFICIALS, BUDD HAS BEEN NEGOTIATING
SALE OF NEW AMTRAK-DESIGN, LOCOMOTIVE-DRAWN, RAILWAY PASSEN-
GER COACHES TO THE GOI, IRANIAN STATE RAILWAYS (ISR) SINCE
MID-1976. IN NOVEMBER, ISR RAISED TO 190 THE NUMBER OF
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PAGE 02 STATE 015611

COACHES IT IS BARGAINING TO BUY (AT COST OF DOLS 120 MILL-
ION) AND OFFERED PAYMENT IN FORM OF 25,000 B/D CRUDE OIL
FOR A PERIOD OF ONE YEAR. AT THIS TIME, NIOC ENTERED THE
NEGOTIATIONS. VALUE OF 25,000 B/D FOR ONE YEAR AT CURRENT
PRICES DOES NOT AMOUNT TO DOLS 120 MILLION--OIL WOULD HAVE
TO BE SUPPLIED AT THAT RATE FOR CLOSER TO EIGHTEEN MONTHS TO
EQUAL THE PRICE OF THE COACHES--BUT IRANIANS DO NOT APPEAR

OVERLY CONCERNED THAT THE BARTER EXCHANGE COVER THE FULL

CONTRACT COST. GOI OFFERED A MIX OF 50-50 LIGHT-HEAVY
CRUDE.

3. BUDD FOUND AN INDEPENDENT AMERICAN OIL BUYER/REFINER
TO CONTINUE ITS DISCUSSIONS WITH ISR/NIOC. THE OIL COM-
PANY WANTED ALL LIGHT CRUDE AND A PRICE CONCESSION. NIOC
EVENTUALLY OFFERED A 70-30 LIGHT, HEAVY SPLIT, BUT
INSISTED THE OIL BE PURCHASED AT MARKET PRICE, WITH 60-DAY
CREDIT TERMS. THE IRANIANS DID AGREE, HOWEVER, THAT THE
BUYER COULD TAKE THE LIGHT HEAVY MIX AS HE WISHED, I.E.
ALL LIGHT IN FIRST MONTHS AND HEAVY LATER.

4. THE IRANIANS HAVE ALSO ASKED FOR A SEVEN YEAR FINAN-
CING PACKAGE.

5. BUDD OFFICIALS ARE PREPARING TO RETURN TO IRAN IN
EARLY 1977 TO CONTINUE NEGOTIATIONS, THOUGH ORIGINAL OIL
BUYER/REFINER SEEMS TO HAVE LOST INTEREST, AND OTHER
POTENTIAL BUYERS HAVE STATED THEY ARE WILLING TO BUY ONLY
AT PRICES CLOSER TO THE NEW SAUDI/UAH PRICE, NOT THE NEW
IRANIAN PRICE. BUDD HAS, IN THE MEANTIME, OBTAINED
EX-IM AGREEMENT TO PROVIDE A NINE-YEAR FINANCING PACKAGE
(TWO-YEAR GRACE PERIOD PLUS SEVEN-YEAR REPAYMENT PERIOD
OF AN EX-IM GUARANTEED, BUT NOT FINANCED, COMMERCIAL-
SOURCED LOAN), BUT BELIEVES ISR/NIOC WILL STILL INSIST ON
AN OIL BARTER DEAL.

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PAGE 03 STATE 015611

6. DEPTOFF BRIEFED BUDD OFFICIALS ON SOME OF THE DEVELOP-
MENTS IN PREVIOUS OIL BARTER NEGOTIATIONS THE IRANIANS HAVE
UNDERTAKEN, AND ON THE SITUATION IN THE CURRENT INTER-
NATIONAL OIL MARKET. HE NOTED THAT IN, AT LEAST, ONE
INSTANCE, THE IRANIANS APPEARED WILLING TO MAKE WHAT
AMOUNTS TO A PRICE CONCESSION IN THE FORM OF A SALE AT A
PRICE WHICH WOULD MAINTAIN AN ESTABLISHED REFINERY PROFIT
MARGIN (WHICH PRICE WOULD HAVE TO BE DETERMINED SOME
MONTHS AFTER MOVEMENT OF THE OIL.) DEPTOFF SUGGESTED THAT
WHILE THIS ARRANGEMENT MAY HAVE BEEN INDUCED BY THE FACT
THE IRANIANS WERE INTENDING TO INVEST IN THE OIL COMPANIES
INVOLVED, IT MIGHT BE WORTH A TRY TO INTEREST THEM IN SUCH
A DEAL IN THIS CASE. OTHER POSSIBILITIES WHICH IRANIANS
MIGHT BE WILLING TO CONSIDER ARE: A) A SHORTER CONTRACT
PERIOD (SAY SIX MONTHS) THAN ONE YEAR, AT LEAST FOR THE
HEAVY CRUDE, WITH A PROMISE TO ATTEMPT TO FIND A BUYER
FOR THE SUBSEQUENT SIX-MONTH PERIOD; OR B) A SET CONTRACT
PRICE FOR THE LIGHT CRUDE AND A GUARANTEED REFINERY PROF-
ITS-TYPE PRICE FOR THE HEAVY.

7. BUDD OFFICIALS PROMISED TO KEEP US ADVISED OF DEVELOPMENTS WITH THE IRANIANS. THEY ARE VERY ANXIOUS TO CONCLUDE THE SALE AND GET SOME OF THEIR EQUIPMENT OPERATING IN THE MIDDLE EAST.

VANCE

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Copy: SINGLE
Sent Date: 24-Jan-1977 12:00:00 am
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Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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Disposition History: n/a
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Disposition Remarks:
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